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Personal financial planning attitudes: a preliminary study of graduate students

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Abstract

Purpose – The purpose of this paper is to report on a survey about the personal financial planning attitudes of MBA students in the USA.

Design/methodology/approach – The study surveyed 206 MBA students about their attitudes to personal financial planning. Participants were asked about their level of knowledge, whether they had prepared components of a financial plan, where they might seek assistance in such a process and the criteria for selecting a financial planner. In addition, participants were asked to indicate their level of confidence in a financial plan's capacity to help them meet their long-term needs and the likelihood that they would implement such a plan.

Findings – The findings indicate that, while most respondents feel both that financial planning is important and that they are interested in developing a financial plan, very few feel that they have the necessary skills and knowledge to prepare their own plan. In addition, the participants indicated a strong preference for professional personal financial planning advice. The study also indicates that less than 13 percent have prepared a comprehensive personal financial plan. When asked to identify the one professional from whom they would seek advice, certified financial planners were the preferred resource.

Research limitations/implications – While the results are not generalizable to the wider population, the views of this group are important because one might expect that educated individuals would be both more interested in personal financial planning and more capable of preparing their own plans compared with average Americans.

Practical implications – The study presents some implications for practice and financial literacy education from a US perspective.

Originality/value – A perceived need of respondents is to feel that their financial planner will put their needs first. While some professionals believe this to be the hallmark of "independence," the respondents placed less importance on planner independence. In order to foster client confidence, planners must act in ways that convey clearly the primacy of their clients' needs.

Keywords Graduates, United States of America, Financial services, Personal finance

Paper type Research paper

Introduction

The need for financial security, especially during retirement years, has been met historically in the United States (USA) in three ways: personal savings (including insurance and annuities), social insurance programs like social security and employer-sponsored pension programs. Employer-sponsored pension programs have been the cornerstone of these financial security tools. Consequently, pension programs have been the target of continual legislative actions. The *Employee Retirement Income and Security Act of 1974* made significant and wide-sweeping changes that affected most aspects of corporate and self-employed pension programs (that is, legal, tax, investment and actuarial) and initiated 401(k) programs. These changes lead to an increase in the popularity of defined-contribution pension plans.

		(%)
<i>Number of participants</i>	<i>n</i> = 206	
Female	104	50.98
Male	102	49.02
Mean age	29.1 years	–
<i>Highest educational level</i>		
Bachelor's degree	171	85.9
Master's degree	23	11.6
Doctoral degree	5	2.5
Mean years of work experience	6.5 years	–
Number employed in accounting or finance	25	12.25
Mean annual income (USD)	47,558	–

Table II.
Summary participant demographics

Attitudes toward planning

Participants were asked specifically

- whether they thought that preparing a personal financial plan was important;
- whether they were interested in preparing such a plan;
- whether they had time to do so; and
- whether or not they felt that they had the necessary skills and knowledge to prepare a personal financial plan.

The results of these four questions are summarized in Table III.

It is interesting to note that the percentage of participants who indicated that they had the skills and knowledge necessary to prepare a personal financial plan (33 percent) is slightly lower than the percentage of Americans in the University of Michigan study who had tried to calculate their retirement fund needs (*Employee Benefit News*, 2005). Of the 68 participants who indicated that they had the necessary skills and knowledge to prepare a personal financial plan, 47 indicated employment in accounting or finance positions.

Only 69 of the subjects (33.5 percent) indicated that they had prepared a written, comprehensive personal financial plan. A complete financial plan addresses many issues, some of which are not applicable to all individuals. Consequently, the participants were also asked to identify plan components that they had prepared. These results are summarized in Table IV.

As evident in Table IV, the participants in the study have not prepared many of the components of a comprehensive financial plan. About the same percentage of participants who reported that they had the skills and knowledge needed to prepare a financial plan (33 percent) had actually prepared such a plan (33.5 percent). Approximately one in five participants had prepared an educational funding analysis.

	Affirmative responses	(%)
Personal financial planning is important	156	75.7
Interested in personal financial planning	138	67
Have the time to prepare a personal financial plan	83	40
Have the skills and knowledge to prepare a personal financial plan	68	33

Table III.
Financial planning interest and knowledge

Accountants (CPA) were selected by 19.4 percent of the respondents. This percentage was divided between CPA/PFS (15.5 percent) and CPAs (3.9 percent). Other financial planning designations (for example, Chartered Life Underwriter [CLU], Certified Fund Specialist [CFS] and Chartered Financial Consultant [ChFC]) were included in the study but were selected by only a few participants.

Weston (2008) indicates that there are about 250,000 individuals in the marketplace who identify themselves as financial planners. Of that number, about 56,000 have earned some kind of professional certification. The CFP® designation appears to be the most popular with about 58,000 certificate holders (CFP Board, 2008). Participants' reported preference for CFPs® is consistent with the predominance of CFP® certificate holders in the marketplace.

When asked whether they preferred fee only, fee and compensation or compensation only planners, the majority of participants (127 or 61.7 percent) indicated that they preferred fee-only planners. Only 30 participants (14.6 percent) indicated a preference for working with a fee and commission planner while 49 (23.8 percent) indicated that they would seek the advice of a commission only planner. Participants were also asked to rank six different reasons for selecting a specific planner. The results of their rankings are shown in Table VI.

The most important planner characteristic, as suggested by the participants, is that the planner places the client's needs first. This predisposition is consistent with the expressed desire by the majority of the respondents to work with a fee-only planner. The desire that the planner demonstrates high levels of product familiarity means that fee-only planners must be as familiar with the products that they recommend, as are commission-only planners. Fee-only planners often use no-load funds for plan implementation, products for which they do not receive a commission. Low transactions costs or the use of commission-free financial products ranked last in importance among the participants.

Participants ranked freedom of choice third in importance. Thus, it may be important for all planners to present clients with a menu of choices for plan implementation. Selecting a number of different funds, for example, with similar risk-return characteristics and time horizons and letting the client make the final selection may help meet this perceived need. Planner independence and confidence ranked considerably lower than did meeting clients needs first and product familiarity. Independence is an attribute often used as a selling point by CPA/PFSs. It appears that this independence may give them little competitive advantage in the marketplace or at least among graduate business students.

Finally, participants were asked to indicate their level of confidence in a financial plan's capacity to help them meet their long-term needs (measured on a scale of 1 = not at all confident to 5 = extremely confident) and the likelihood that they would

Criteria	Mean rank ^a	SD
I want to know that the planner will put my needs first	1.78	1.61
Planner's familiarity with products	3.08	1.59
I want to preserve my freedom of choice in product selection	3.37	1.30
I want to feel that the financial planner is confident in his/her recommendations	3.60	1.48
I want to feel that my planner is independent	3.99	1.68
Reduced transaction costs	4.86	1.44

Note: ^a1 = Most important to 6 = least important

Table VI.
Planner selection criteria

the majority of them do not view their CPAs as potential providers of financial planning advice.

Very few of the respondents indicated that they would seek the advice of CFS, ChFC or CLU. These are designations normally held by insurance professionals. This also is surprising because the most frequently mentioned professional relationship was with an insurance agent. Indeed, 40.7 percent of the respondents had established such a relationship. It appears that both the insurance and public accounting professions have not had the same success in promoting members of their professions as personal financial planners.

A perceived need by the respondents to feel that their financial planner will put the client's needs first is clearly apparent in Table VI. While some professionals may feel that this is the hallmark of "independence", the respondents placed much less importance on a planner's independence. Thus, to foster a client's confidence, planners must act in ways that very clearly convey the message to the client that their needs are paramount.

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Further reading

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